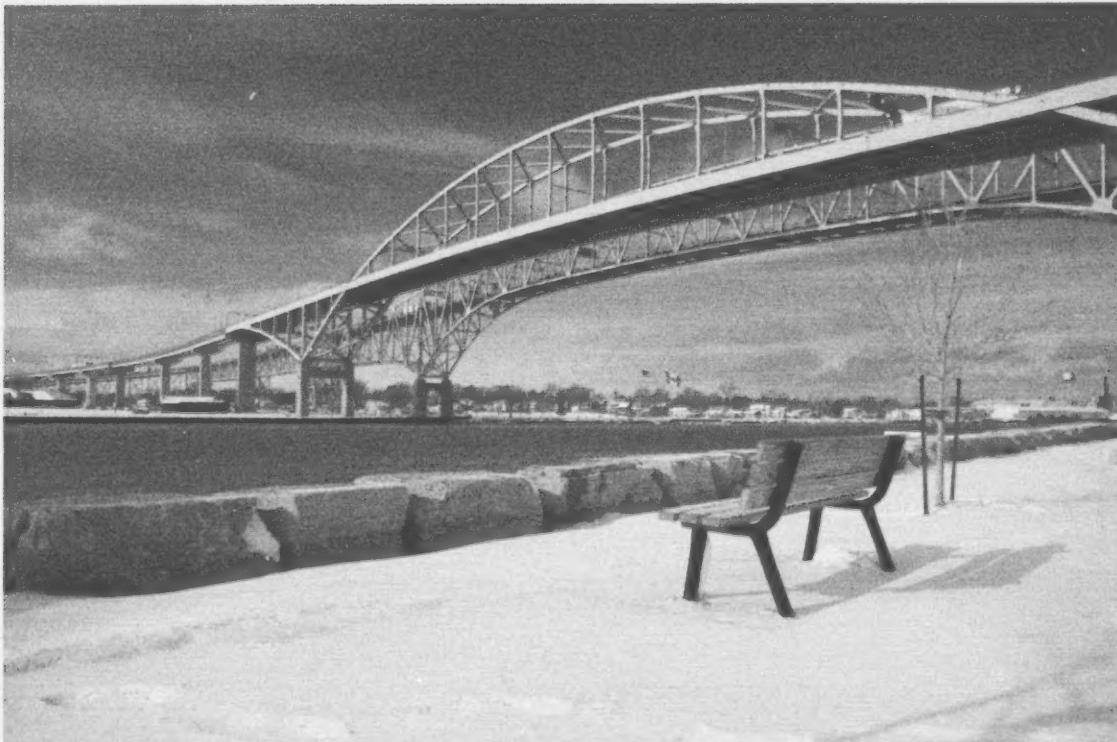


# Quarterly Financial Report

1<sup>st</sup> Quarter  
(Q1)  
Unaudited  
For the three  
months ended  
November 30, 2011



**Blue Water  
Bridge Canada**

**Pont Blue  
Water Canada**

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## **1.0 Background, Legislative Authority and Compliance**

Blue Water Bridge Canada (BWBC) was created by a 1964 Act of Parliament (*Blue Water Bridge Authority Act*) where “*it is deemed appropriate that an international bridge providing facilities for the carriage of highway traffic between Canada and the United States be operated on a joint international basis by a public authority having equal representation of members appointed from each of the two countries, and having power to levy tolls to meet the costs of operating and maintaining such a bridge*”. At that time, in anticipation of such a merger to occur sometime in the future, the Canadian legislation initially established a corporation to be known as the Blue Water Bridge Authority to own (under federal control), operate and maintain the Canadian half of the highway toll bridge over the St. Clair River between Point Edward, Ontario and Port Huron Michigan. Similar legislation exists with the State of Michigan authorizing the American “Authority” to operate in the same way.

In accordance with the provisions of a 1928 Special Act of Parliament authorizing construction and operation of the Blue Water Bridge, ownership of the Canadian portion reverted, at no cost or expense, to the Federal Government from the State of Michigan in 1962. The Michigan Department of Transportation (MDOT) owns, operates and maintains the U.S. half of the bridge.

BWBC qualifies as a “parent Crown corporation” under the *Financial Administration Act* and regulations. As such, BWBC is required to submit an annual corporate plan outlining its business activities and investments, set BWBC’s objectives for the relevant period and the strategy to achieve such objectives. The *Financial Administration Act* (Canada) also requires that BWBC prepare and file annual operating and capital budgets, each of which require the approval of the Treasury Board on the recommendation of the Minister of Transport, Infrastructure and Communities. BWBC is obliged to prepare annual reports including audited financial statements for submission to Parliament via the Minister of Transport, Infrastructure and Communities.

The *Blue Water Bridge Authority Act*, and the *Customs Act*, section 6, require BWBC to provide, equip and maintain free of charge adequate buildings or other facilities for the proper interviewing, examination and detention of persons and goods by customs officers.

BWBC has taken active measures to ensure compliance with the *Official Languages Act* and continues to implement its obligations with the Treasury Board of Canada Secretariat to ensure compliance with the *Federal Identity Program*. As part of that compliance, The President of the Treasury Board and the Minister of Transport, Infrastructure and Communities agreed on an applied title for the organization – from Blue Water Bridge Authority to Blue Water Bridge Canada – effective September 2007.

BWBC has operational relationships with: Ontario provincial authorities and particularly with the Ministry of Transportation; the Ontario Provincial Police, and; local municipalities, in particular Point Edward, Ontario upon which the bridge’s Canadian assets are sited.

Pursuant to the *Blue Water Bridge Authority Act*, BWBC is limited to charging tolls which provide for current revenues in an amount sufficient to pay BWBC’s reasonable current costs; to establish prudent reserve funds; to provide or replenish sinking funds in respect of outstanding bonds, and; to pay other expenses properly incurred by BWBC in its performance of duties under the Act. The *Canada Transportation Act* regulates the means of setting and publishing toll rates.

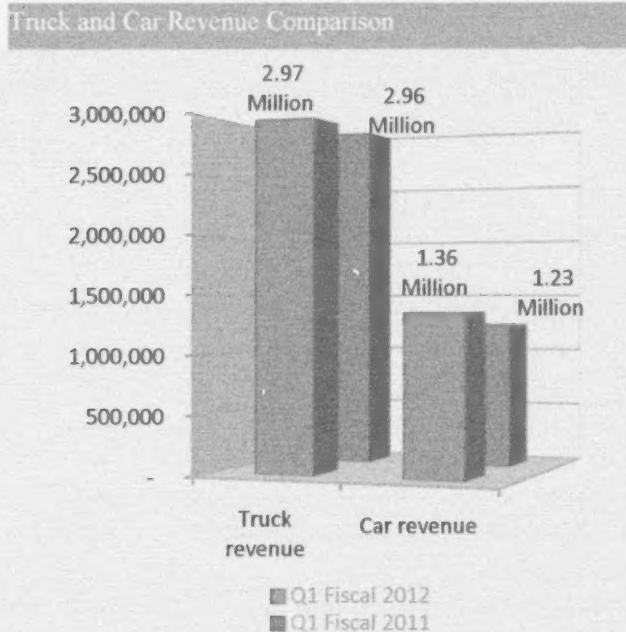
## 2.0 Q1 Fiscal 2012 in Review

This quarterly financial report has been prepared in accordance with the requirements of the Financial Administration Act and the Standard on Quarterly Financial Reports for Crown Corporations issued by the Treasury Board Secretariat with the exception of the presentation of the comparative information presented against the 2011 fiscal year versus the 2012 first quarter due to the timing of the enactment of the legislation and the availability of the required financial information across BWBC.

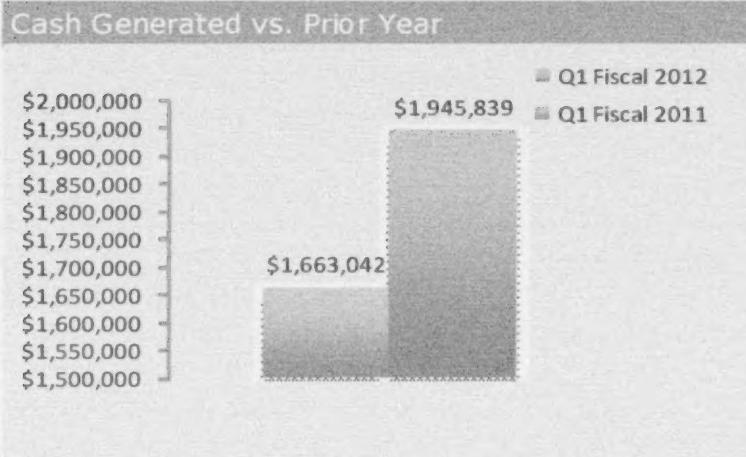
This quarterly financial report assesses the operations and financial status of BWBC for the fiscal quarter ended November 30, 2011. It should be read in conjunction with the interim unaudited condensed financial statements and supporting notes included herein and the annual audited financial statements included in BWBC's 2011 Annual Report. Unless otherwise indicated, all amounts are expressed in Canadian dollars.

### 2.1 Summary of Results

BWBC reports a net loss of \$1.02 million for the three months ended November 30, 2011 (Q1) compared to a net loss of \$781 thousand for the year ended August 31, 2011. Q1 results have been strong with traffic volumes increasing by 6.6% for cars and 1.1% for trucks compared to Q1 2011. In addition to the volume increase, BWBC determined that a toll adjustment of \$.25 for passenger vehicles on October 1<sup>st</sup> would be necessary to ensure that BWBC can continue to meet the day-to-day needs of customers into the future. BWBC is on target for Q1 compared to the corporate plan except that the toll adjustment was expected to take effect on September 1<sup>st</sup> along with a toll rate adjustment expectation for trucks. While the passenger vehicle toll increase was pushed back to October 1<sup>st</sup>, the commercial vehicle increase was pushed back to January 2012. After long deliberation, BWBC decided to allow enough time for customers to prepare for the toll rate adjustment which is the reason for the delay.



With the completion of the Blue Water Bridge Corporate Centre and the additional maintenance it required, the bridge inspection timing, and additional interest expense, the cash generated from operations was \$283 thousand or 14.5% less than Q1 2011. This represents 26.9% of cash generated compared to fiscal 2011 yearend results.



## 2.2 Outlook

As the latest phase of the Capital Master Plan (the \$70 Million CBA complex project) reached its substantial completion date in May 2011, BWBC has begun saving resources for the next phase. A toll increase for commercial vehicles will commence in January 2012 of \$.25 per axle to increase BWBC's cash position for future projects. BWBC expects that this toll increase will improve its cash position, bond covenant coverage and ability to fund small capital projects in the short-term.

## 3.0 Discussion of Financial Results

Period over Period Comparisons

*For the three months ended November 30, 2011 and 2010  
(explanations in thousands)*

Q1 2012 totals are expressed in accordance with IFRS and Q1 2011 amounts are expressed in accordance with CGAAP. All variances due to the transition to IFRS are expressed in the discussion below.

## Revenues

	Q1 Fiscal 2012	Q1 Fiscal 2011
<b>Toll Revenue</b>		
Truck revenue	2,971,345	2,960,724
Car revenue	1,355,444	1,233,216
Bus revenue	8,136	8,595
Other	(109,009)	(34,083)
	<b>4,225,916</b>	<b>4,168,452</b>
<b>Rental Revenue</b>		
Duty Free revenue	470,284	478,819
Commercial revenue	201,220	165,876
Residential revenue	10,045	9,838
Storage revenue	2,040	3,477
	<b>683,589</b>	<b>658,010</b>
<b>CX Revenue</b>		
US purchased	(125,572)	(209,919)
US sold	395,493	474,574
Interest income	2,448	1,847
ATM service fees	8,007	2,041
Foreign exchange	77,121	(20,056)
	<b>357,497</b>	<b>248,497</b>
<b>Other</b>		
Int-bank accounts	15,373	24,567
Int-investments	66,238	106,939
Sundry	6,035	(176)
	<b>87,646</b>	<b>131,330</b>
<b>Total Income</b>		
	<b>\$5,354,648</b>	<b>\$5,206,289</b>

**Toll Revenue** increased by \$78 or 1.9%. Car volumes increased by 28,583 while truck volumes also increased by 1,854 creating a favourable volume variance of \$114; however, this increase was partially offset by the effects of the strengthening Canadian Dollar on U.S. dollar toll revenue collected (\$6 decrease) and the USD cash holdings (\$56 decrease). An increase in token usage created a negative effect as the tokens are offered to passenger vehicles at a discount (\$34 decrease); however, on October 1<sup>st</sup> BWBC increased its tolls for passenger vehicles by 25 cents (\$54 increase). The change in axle mix and CAD/US traveler mix created an increase of \$6.

**Rental Revenue** increased by \$26 or 3.9% primarily due to the increase in commercial rent moving into Blue Water Bridge Corporate Centre (\$35 increase). Duty Free variable rent decreased due to lower gross sales (\$9 decrease).

**Currency Exchange Revenue** increased by \$109 or 44% as a function of increased car traffic and the availability of 24-hour, 7 days a week ATM machines.

**Interest Income** decreased due to the redemption of investments to finance the capital projects which were completed during fiscal 2011 (\$50 decrease).

## Expenses

General & Administrative	Q1 Fiscal 2012	Q1 Fiscal 2011
Insurance	\$101,677	\$85,627
Legal and accounting	\$78,080	\$2,925
Office expenses	\$53,855	\$52,204
Municipal taxes	\$50,979	\$63,408
Computer supplies	\$24,577	\$47,603
Other	\$20,885	\$12,470
Public relations and entertainment	\$19,241	\$32,986
Bank charges	\$17,191	\$17,022
Travel	\$15,278	\$29,593
Consultants	\$10,914	\$47,231
Cash over and short	\$1,283	\$26,739
Total	\$393,960	\$417,808
 Maintenance	 Q1 Fiscal 2012	 Q1 Fiscal 2011
Utilities	\$153,231	\$86,698
Bridges	\$127,286	\$8,798
Landscaping	\$99,754	\$42,394
Janitorial and shop supplies	\$56,063	\$42,838
Other	\$31,504	\$26,126
Buildings and booths	\$18,519	\$18,410
Total	\$486,357	\$225,264
 Salaries	 Q1 Fiscal 2012	 Q1 Fiscal 2011
Operations	\$364,416	\$333,934
Administrative Services	\$266,671	\$177,379
Maintenance	\$141,852	\$131,773
Currency Exchange	\$102,443	\$84,018
Janitorial	\$98,341	\$91,992
Project Management	\$17,388	\$138,471
Total	\$991,111	\$957,567
 Benefits	 Q1 Fiscal 2012	 Q1 Fiscal 2011
Group insurance and critical illness	\$212,340	\$205,936
Group pension	\$53,239	\$57,285
Canada pension & EI	\$28,697	\$25,530
Employer health tax	\$19,213	\$18,123
WSIB	\$10,104	\$9,533
Miscellaneous	\$3,162	\$3,156
Total	\$326,755	\$319,563
 Interest Expense	 Q1 Fiscal 2012	 Q1 Fiscal 2011
Bond interest	\$1,412,549	\$1,445,630
Bank loan interest	\$137,804	\$0
Total	\$1,550,353	\$1,445,630
 Depreciation	 Q1 Fiscal 2012	 Q1 Fiscal 2011
Depreciation on capital assets	\$2,587,810	\$966,788
Depreciation on intangible assets	\$39,762	\$37,770
Gain on disposal of asset	(\$627)	\$0
Total	\$2,626,945	\$1,004,558
 Total Expenses	 Q1 Fiscal 2012	 Q1 Fiscal 2011
	\$6,375,481	\$4,370,390

**General and Administrative Expenses** decreased due to a reduction in consulting expenses in the areas of corporate strategic governance and employee facilitation. This

created a favourable variance in consulting expenses for Q1 (\$36 decrease). Also, due to BWBC's cost cutting goals in Fiscal 2012, travel expenses and public relations have a favourable variance (\$15 and \$14 decrease, respectively). Computer supplies have decreased due to additional software support and upgrades required in the prior year (\$23 decrease). The cause of an increase in accounting expenses has to do with the transition into International Financial Reporting Standards and the timing of Internal Auditors (\$75 increase). Insurance costs increased due to the new building (BWBCC) and additional infrastructure (\$16 increase).

**Maintenance Expenses** increased due to bridge work related to recommendations in last year's bridge inspection report (\$32 increase). Also, due to timing of inspections between 2012 and 2011, a negative variance shows in the maintenance expenses (\$95 increase). With the completion of Blue Water Bridge Corporate Centre (formerly known as the CBA Complex), utility expenses have also increased (Heating - \$10 increase and Power - \$66 increase).

**Salaries Expenses** have increased by 3.5%. Administration has added three employees to its salary expense (Manager of Communications and two current employees transferred from Project Management department to Administrative Services - \$90 increase). This is also part of the reason for the \$121 favourable variance in the Project Management department. In addition, BWBC began capitalizing Project Management salaries in January 2011 creating a timing variance for Q1. The overall variance in Operations is an increase of \$30. This increase is partly due to one fulltime and one hourly employee being hired.

**Benefits Expenses** remained constant from quarter to quarter; however, an increase is expected in future quarters due to the new collective agreement which allows hourly employees to receive full-time benefits.

**Interest Expense** has increased slightly. Although the bond principal is diminishing reducing the interest expense (\$48 decrease), BWBC utilized a \$15 million credit facility in the summer of 2011 to finance the federal infrastructure projects and the completion of the Blue Water Bridge Corporate Centre (\$138 increase). Also, there was an increase due to an IFRS adjustment (\$15 increase).

**Depreciation Expense** has more than doubled due to the substantial completion in May 2011 of the \$70 million Blue Water Bridge Corporate Centre project and the \$18.3 million in federal infrastructure projects in March 2011. Also, there was an increase due to an IFRS adjustment (\$333 increase).

### **3.1 Risk Analysis**

BWBC's management of its risks is governed by a Risk Management policy which sets out the Board's responsibilities to:

- Understand the significant risks to which BWBC is exposed

- Establish appropriate and prudent risk management policies for those risks, review the policies regularly, and satisfy the Board on an annual basis that the policies continue to be appropriate and prudent
- Obtain reasonable assurance, on a regular and annual basis that the policies continue to be appropriate and prudent
- Obtain reasonable assurance, on a regular and annual basis, that the Corporation has an effective risk management process and that risk management policies are being administered, maintained and updated as required.

The Board's Audit Committee is mandated to assist in carrying out these responsibilities and has established expectations of management with respect to supporting the Board in fulfilling its risk management responsibilities. Management's risk management process and results are subject to validation by BWBC's internal audit function.

BWBC's Internal Auditor, Ernst & Young, conducted an "Enterprise Risk Management Workshop" during the summer of 2010. From this exercise the Board and senior management identified our 12 top risks with the following order of ranking:

1. Managing Market Share
2. Deterioration in Government Relations
3. Inadequate Succession Planning
4. Breakdown in Community Support
5. Regulatory Intervention
6. Inadequate Bridge Maintenance
7. Failure to Sustain Competition
8. Lack of Product and Market Innovation
9. Cost/Schedule Overruns
10. Failure in Use of Technology
11. Inability to Repay Debt Covenants
12. Inadequate Contract Management



## Overview of BWBC's Assessment of its Significant Risks

**BWBC's Operational Risk:** BWBC's risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

**Safety and Security Risk:** The risk that BWBC fails to ensure the safety of its personnel and the security and integrity of its assets, including the confidentiality of its information.

**Business Continuity Risk:** The risk that a disruption impacting BWBC's personnel, information, premises, technology or operations will impede its ability to achieve its statutory objects and conduct of its affairs.

**Process Risk:** The risk resulting from the incorrect execution of a breakdown in, or a gap in, a policy, practice or control respecting BWBC's processes.

**Structural Risk:** The risk that the structure of the bridge spans will be compromised due to environmental effects and traffic stresses.

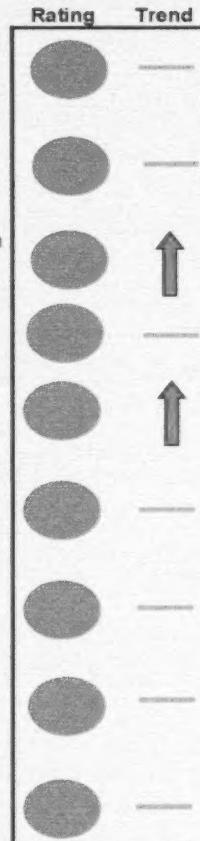
**Information Risk:** The risk that timely, accurate and relevant information is not available to facilitate informed decision making and/or the exercise of effective oversight.

**Legal/Compliance Risk:** The risk that BWBC fails to identify, consider, fulfill or comply with its legal and other obligations and requirements, in the conduct of its affairs.

**People Risk:** The risk resulting from inadequacies in the competencies, capacity or performance, or from the inappropriate treatment of BWBC employees.

**Technology Risk:** The risk that BWBC's technology does not appropriately support the achievement of its statutory objects and the conduct of its affairs.

**Reputation Risk:** The risk of an event significantly affecting stakeholders' perceived trust and confidence in BWBC, creating a public backlash which could result in a financial or other loss to BWBC.



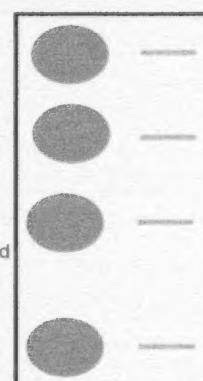
**BWBC's Financial Risk:** BWBC's risk associated with managing its assets and liabilities.

**Liquidity/Solvency Risk:** The risk that funds will not be available to BWBC to honour its cash obligations as they arise.

**Event Risk:** The risk of loss to BWBC of events beyond its control such as economic downturns, security alerts and emergencies and other unforeseen events.

**Market Risk:** The risk of loss attributable to adverse changes in the values of financial instruments and other investments or assets owned directly by BWBC, as a result of changes in market rates (such as interest rates and foreign exchange rates) or prices.

**Competitive Risk:** The risk that changes and improvements made by our competitors or by changes in government policy that might significantly affect traffic volumes.



The risk management workshop involved the participation of the Board of Directors and senior management to identify the top 12 risks to the organization from which a long term audit plan will be developed. The top 12 risks to BWBC appear to be:

#	Brief Risk Description	Impact
1	<b>Managing Market Share</b>	5.0
2	<b>Deterioration in Government Relations</b>	5.0
3	<b>Inadequate Succession Planning</b>	4.7
4	<b>Breakdown in Community Support</b>	4.2
5	<b>Regulatory Intervention</b>	4.2
6	<b>Inadequate Bridge Maintenance</b>	4.2
7	<b>Failure to Sustain Competition</b>	4.3
8	<b>Lack of Product and Market Innovation</b>	4.3
9	<b>Cost / Schedule Overruns</b>	4.3
10	<b>Failure in Use of Technology</b>	4.5
11	<b>Inability to Repay Debt Covenants</b>	3.8
12	<b>Inadequate Contract Management</b>	3.7

These risks are for the most part mitigated with the programs and strategies indentified in the risk management section of the most recent corporate plan (2012-2016).

### **3.2 Significant Changes**

#### **Critical Accounting Policies and Future Policy Changes**

In December 2009, the Public Sector Accounting Board released an amendment to the “Introduction to Public Sector Accounting Standards” which clarifies the source of Generally Accepted Accounting Principles (GAAP) for government organizations like Blue Water Bridge Canada. Classified as an Other Government Business Enterprise, BWBC was required to assess whether International Financial Reporting Standards (IFRS) are the most appropriate basis of accounting for the organization or whether the Public Sector Accounting Handbook should be adopted. Management concluded that IFRS is the most appropriate basis of accounting.

The BWBC IFRS transition plan is comprised of three phases: scoping, development and implementation. The scoping and development phases were completed in the 2008-2009 fiscal year and the implementation phase commenced in 2009-2010. During the 2010-2011 fiscal year, BWBC continued the implementation phase of the project, which included:

- finalizing the implementation of remediation plans to address action items identified during the development phase;
- obtaining Audit Committee approval for IFRS accounting policy recommendations and IFRS 1 elections;
- quantifying and recording reconciliation adjustments between the Canadian GAAP and IFRS;
- preparing an opening IFRS Balance Sheet at September 1, 2010; and
- delivering IFRS awareness and technical training sessions to staff and members of BWBC Board of Directors and Audit Committee.

BWBC is receiving assistance with its IFRS conversion from the accounting firm PricewaterhouseCoopers (PwC). BWBC and PwC have kept the Office of the Auditor General (OAG) fully informed of its progress and identified the issues – componentization of assets and related depreciation – which have been addressed. BWBC is on schedule to have comparative statements completed for fiscal year 2010/2011 early into fiscal 2011/2012. There have not been any problems with the IFRS implementation.

The IFRS opening balance sheet adjustments are identified and incorporated in this quarterly report and it is apparent that retained earnings has increased by a one-time adjustment of \$55 million due to the fair value assessment for the capital assets (\$54 million); reinstatement of the long-term debt bond transaction costs (\$0.7 million), and; to capitalize borrowing costs associated with the Blue Water Bridge Corporate Centre (formerly the CBA Building) (\$0.6 million). The following table provides a summary of key activities remaining for the IFRS transition project:

<b>Year</b>	<b>Required Activities</b>
2011/12	<ul style="list-style-type: none"> <li>• Prepare the first annual set of IFRS financial statements for the year ending August 31, 2012.</li> <li>• Monitor all proposed and continuing projects of the International Accounting Standards Board, giving consideration to any changes expected to impact BWBC.</li> <li>• Continue to communicate changes and provide training as required.</li> </ul>

**4.0 BWBC Interim Unaudited Condensed Financial Statements**

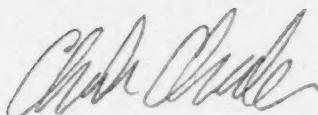
For the three months ended November 30, 2011

**Quarterly Financial Statements  
(Interim Unaudited)**

#### **4.1 Statement of Management Responsibility**

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.



Chuck Chrapko  
President and CEO

Sarnia, Ontario  
Canada

January 31, 2012



David Joy, BA, CGA  
Chief Financial Officer

## 4.2 Balance Sheet

(Unaudited)	IFRS November 30, 2011	IFRS August 31, 2011
As at November 30, 2011		
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 9,914,682	\$ 7,987,690
Held-to-maturity financial assets	1,076,580	1,069,906
Accounts receivable	1,617,024	2,247,859
Prepaid expenses	286,555	373,439
	<u>12,894,841</u>	<u>11,678,894</u>
<b>Held-to-maturity financial assets</b>	<b>1,129,761</b>	<b>1,117,387</b>
<b>Property, plant and equipment</b>	<b>218,780,725</b>	<b>220,098,728</b>
<b>Intangible assets</b>	<b>229,816</b>	<b>269,578</b>
<b>Investment property</b>	<b>15,963,263</b>	<b>16,235,847</b>
<b>Restricted assets</b>		
Debt service reserve fund	3,436,842	3,405,935
Operating and maintenance contingency fund	<u>2,239,160</u>	<u>2,222,877</u>
	<u>5,676,002</u>	<u>5,628,812</u>
	<u>\$ 254,674,408</u>	<u>\$ 255,029,246</u>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 4,050,825	\$ 2,859,594
Holdbacks payable	-	992,116
Deferred revenue	2,260,759	1,642,495
Current portion of bank loan payable	379,191	375,391
Current portion of bonds payable	<u>3,226,301</u>	<u>3,226,301</u>
	<u>9,917,076</u>	<u>9,095,897</u>
<b>Employee future benefits liability</b>	<b>5,276,569</b>	<b>5,336,370</b>
<b>Long-term debt</b>		
Bank loan payable	14,499,383	14,594,766
Bonds payable	<u>84,133,797</u>	<u>84,133,797</u>
	<u>98,633,180</u>	<u>98,728,563</u>
	<u>113,826,825</u>	<u>113,160,830</u>
<b>Equity</b>		
Retained earnings	<u>140,847,583</u>	<u>141,868,416</u>
	<u>\$ 254,674,408</u>	<u>\$ 255,029,246</u>

The accompanying notes form an integral part of the interim unaudited financial statements.

### **4.3 Statement of Operations, Comprehensive Income and Equity**

(Unaudited) November 30, 2011      August 31, 2011  
**For the period ended November 30, 2011**

#### **Revenues**

Tolls and services	\$ 4,225,916	\$ 16,313,008
Facility rentals	683,589	2,455,481
Currency exchange department	357,498	1,205,663
Interest and Sundry	87,645	419,115
	<b>5,354,648</b>	<b>20,393,267</b>

#### **Expenses**

Amortization of property, plant and equipment	2,315,226	6,012,031
Interest on long-term debt	1,550,353	5,313,364
Human resources	1,317,866	5,210,696
Maintenance and other expenses	486,357	1,623,024
General and administrative	393,960	2,200,267
Amortization of investment property	272,584	662,189
Amortization of intangible assets	39,762	153,063
Gain on disposal of property, plant and equipment	(627)	
	<b>6,375,481</b>	<b>21,174,634</b>

**Deficit of revenues over expenses and comprehensive income** \$ (1,020,833) \$ (781,367)

**Retained Earnings, beginning of year** \$ 141,868,416 \$ 142,649,783  
**Excess of revenues over expenses and comprehensive income** (1,020,833) (781,367)

**Retained Earnings, end of year** \$ 140,847,583 \$ 141,868,416

The accompanying notes form an integral part of the interim unaudited financial statements.

## 4.4 Statement of Cash Flows

(Unaudited)	November 30, 2011	August 31, 2011
For the period ended November 30		
<b>Cash Flows from operating activities</b>		
Excess of revenues over expenses and comprehensive income	\$ (1,020,833)	\$ (781,367)
Adjustments for items not affecting cash		
Amortization of investment property	272,584	662,189
Amortization of property, plant and equipment	2,315,226	6,012,031
Amortization of intangible assets	39,762	153,063
Employee future benefits liability	(59,801)	611,173
Interest on held-to-maturity financial assets	(6,674)	(14,673)
Gain on disposal of property, plant and equipment	(627)	-
Foreign exchange loss	123,406	45,641
	<u>1,663,043</u>	<u>6,688,057</u>
Changes in non-cash working capital items		
Accounts receivable	630,835	(733,109)
Prepaid expenses	86,884	(54,498)
Accounts payable and accrued liabilities	1,191,231	(3,523,468)
Holdbacks payable	(992,116)	(3,401,899)
Deferred revenue	618,264	118,328
	<u>1,535,098</u>	<u>(7,594,646)</u>
<b>Net cash provided by operating activities</b>	<u>3,198,141</u>	<u>(906,589)</u>
<b>Cash Flows from investing activities</b>		
Purchase of property, plant and equipment	(997,223)	(31,375,786)
Purchase of intangible assets	-	(54,348)
Purchase of investment property	-	-
Proceeds on disposal of property, plant and equipment	627	-
Investments		
Matured investments	-	9,088,451
Investments purchased	(12,374)	-
Restricted assets		
Matured investments	-	375,000
Investments purchased	(47,190)	(843,499)
<b>Net cash used in investing activities</b>	<u>(1,056,160)</u>	<u>(22,810,182)</u>
<b>Cash Flows from financing activities</b>		
Funding received from federal government - infrastructure	-	5,907,980
Increase in long-term debt - bank loan - current portion	3,800	375,391
(Decrease) Increase in long-term debt - bank loan	(95,383)	14,594,766
Increase in long-term debt - bond principal - current portion	-	201,167
Decrease in long-term debt - bond principal	-	(3,289,999)
<b>Net cash provided by financing activities</b>	<u>(91,583)</u>	<u>17,789,305</u>
<b>Foreign exchange loss on cash held in foreign currency</b>	<u>(123,406)</u>	<u>(45,641)</u>
<b>Increase (Decrease) in cash during the year</b>	<u>1,926,992</u>	<u>(5,973,107)</u>
<b>Cash, beginning of period</b>	<u>7,987,690</u>	<u>13,960,797</u>
<b>Cash, end of period</b>	<b>\$ 9,914,682</b>	<b>\$ 7,987,690</b>

The accompanying notes form an integral part of the interim unaudited financial statements.

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**Financial Statements – For the three months ended November 30, 2011**

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## **4.5 Selected Notes to the Interim Unaudited Condensed Financial Statements**

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The interim unaudited condensed financial statements should be read in conjunction with BWBC's fiscal 2011 annual report and with the narrative discussion included in this quarterly financial report.

### **1. Basis of Preparation**

This quarterly financial report has been prepared in accordance with the requirements of the Financial Administration Act and the Standard on Quarterly Financial Reports for Crown Corporations issued by the Treasury Board Secretariat with the exception of the presentation of the comparative information presented against the 2011 fiscal year versus the 2012 first quarter due to the timing of the enactment of the legislation and the availability of the required financial information across BWBC.

As at September 1, 2011, BWBC transitioned to IFRS from CGAAP. Note 2 is a summary of accounting policies with any applicable changes from the 2011 Annual Report. The effect of the transition to IFRS on the reported balance sheet and statement of operations is provided in Note 4.

### **2. Summary of Significant Accounting Policies**

#### **a) Cash**

Cash includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

#### **b) Financial Instruments**

Financial instruments are measured at fair value on initial recognition. Transaction costs are included in the initial measurement of financial instruments except for financial assets held-for-trading for which transaction costs are expensed. The measurement of financial instruments in subsequent periods depends on their classification. The classification of BWBC's financial instruments is presented in the following table:

Categories	Financial Instruments
Financial assets held for trading	Cash
Financial assets held to maturity	Held-to-maturity financial assets Restricted assets
Loans and receivables	Accounts receivable
Other Financial liabilities	Accounts payable Holdbacks payable Long-term debt

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**Financial Statements – For the three months ended November 30, 2011**

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## **4.5 Selected Notes to the Interim Unaudited Condensed Financial Statements**

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### **2. Summary of Significant Accounting Policies continued...**

#### **b) Financial Instruments continued...**

Financial assets held for trading are recognized at fair value on the balance sheet. Gains and losses arising from the change in fair value are recognized in the Statement of Comprehensive Income for the period in which they arise.

Financial assets held-to-maturity are measured at amortized cost. Interest is recognized using the effective interest rate method and recognized under Interest and Sundry in the Statement of Operations, Comprehensive Income and Equity. Financial assets held-to-maturity are classified as non-current assets, except for those with maturities that are less than 12 months from the end of the reporting period, which are classified as current assets. Restricted assets are classified as non-current in accordance with the timing of their intended use.

Assets classified as loans and receivables are recorded at amortized cost using the effective interest rate method, which usually corresponds to the amount initially recorded less any allowance for doubtful accounts.

Other financial liabilities are measured at amortized cost using the effective interest method.

#### **c) Impairment of Financial Assets**

Assessment is made at the end of each report period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria used to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimate future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - i) Adverse changes in the payment status of borrowers in the portfolio; and
  - ii) National or local economic conditions that correlate with defaults on the assets in the portfolio.

For financial assets measured at amortized cost, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective

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**Financial Statements – For the three months ended November 30, 2011**

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## **4.5 Selected Notes to the Interim Unaudited Condensed Financial Statements**

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### **2. Summary of Significant Accounting Policies continued...**

#### **c) Impairment of Financial Assets continued...**

interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognized in the Statement of Comprehensive Income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, BWBC may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the Statement of Comprehensive Income.

#### **d) Property, Plant and Equipment**

Property, plant and equipment is presented on the Balance Sheet as cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition or the construction of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to BWBC and the cost of the item can be measured reliably. Repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they occurred.

Land is not depreciated. Depreciation on other assets is calculated using the methods and estimated useful lives below. Depreciation rates based on the estimated useful life of an asset are as follows:

Bridge – first span		Straight line for 50 years
Bridge – second span		Straight line for 75 years
Truck Ramp		Straight line for 50 years
Buildings	5%	Diminishing balance basis
Buildings & Booths identified for demolition		Remaining life, straight line, 1 to 10 years
Buildings – leased Duty Free	5%	Diminishing balance basis
Buildings – residential (including land)		No amortization
Equipment	10%	Diminishing balance basis
Equipment – computer		Straight line for 5 years
Property improvements	10-20%	Diminishing balance basis
Vehicles and construction equipment	20%	Diminishing balance basis

Residual values and useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period, or more often if events or circumstances dictate.

**Blue Water Bridge Canada**  
**Financial Statements – For the three months ended November 30, 2011**

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## **4.5 Selected Notes to the Interim Unaudited Condensed Financial Statements**

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### **2. Summary of Significant Accounting Policies continued...**

#### **d) Property, Plant and Equipment continued...**

Ten buildings and all booths have been identified for demolition in accordance with the master capital plan. Depreciation has been accelerated to depreciate the remaining net book value over the period of time through to the planned date of demolition.

No depreciation on buildings-residential is recorded. The total acquisition cost of the buildings – residential will be transferred to the land account when these buildings are demolished.

Construction in process is not depreciated. When projects are significantly completed and put in use, the costs are transferred to the appropriate asset account and depreciation is initiated.

#### **e) Intangible Assets**

The costs of purchases of computer software that meet the definition of intangible assets and that are separable from an item of related hardware are capitalized separately and depreciated over their useful lives on a straight-line basis over five years.

#### **f) Investment Property**

Investment property is property held either to earn rental income, for capital appreciation, or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. In some cases it is difficult to determine the appropriate classification of certain property. In these instances the decisive criterion for the classification of land or building as investment property is the intended use. If BWBC intends to hold the property to earn rental income, for capital appreciation, or for both, the asset will be classified as investment property. Investment property consists of property held under operating leases with tenants such as commercial customs brokers, private coffee shops, and a duty free store.

Properties which comprise a portion that is held to earn rental income or for capital appreciation and another portion held for use in the supply of services or for administrative purposes are accounted for separately as investment property and property, plant and equipment, respectively, if these portions could be sold separately or leased out separately under a finance lease.

Investment property is measured initially at cost and is subsequently accounted for under BWBC's accounting policy for property, plant and equipment.

Investment property is depreciated over the useful life of the property, on a diminishing balance basis, at a rate of 5%.

#### **g) Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

**Blue Water Bridge Canada**  
**Financial Statements – For the three months ended November 30, 2011**

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## **4.5 Selected Notes to the Interim Unaudited Condensed Financial Statements**

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### **2. Summary of Significant Accounting Policies continued...**

#### **g) Borrowing Costs continued...**

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

When general borrowings are incurred for the development of a qualifying asset, a weighted average carrying amount of the asset during the period is calculated and a capitalization rate applied to the resulting figure. The capitalization rate applied to the resulting figure is the borrowing rate incurred.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

#### **h) Impairment of Non-financial Assets**

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

#### **i) Revenue**

*Toll and services* revenues are recognized and recorded at the time the tolls are collected when the vehicles pass through the toll lanes. Payments received in U.S. dollars are translated into Canadian dollars based on daily exchange rates.

*Facility rentals* revenues are recognized and recorded in the periods in which they are earned. These revenues include lease payments received from tenants such as commercial custom brokers, private coffee shops, and a duty free store.

*Currency exchange department* revenues are recorded and recognized at the time the currency exchange transaction is completed. Payments received in U.S. dollars are translated into Canadian dollars based on daily exchange rates.

*Interest* is recognized and recorded in the period in which it is earned. The primary component of revenue in this category is bond interest.

*Deferred revenues* are comprised of tolls paid in advance by passenger vehicle users and commercial trucking companies.

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**Financial Statements – For the three months ended November 30, 2011**

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## **4.5 Selected Notes to the Interim Unaudited Condensed Financial Statements**

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### **2. Summary of Significant Accounting Policies continued...**

#### **j) Foreign Currency Translation**

Foreign currency transactions and account balances are translated to Canadian dollars as follows:

At the transaction date, each asset, liability, revenue or expense is translated through the use of the exchange rate in effect at that date. At the year-end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in the Statement of Operations, Comprehensive Income and Equity in the current period.

#### **k) Employee Future Benefits**

BWBC provides post-retirement benefits including health care, dental care, employee assistance, and life insurance to eligible employees and their dependents upon meeting certain requirements. The obligation and the cost of these benefits are determined on an actuarial basis using the projected unit credit method prorated on service and management's best estimate assumptions. The discount rate used to determine the accrued benefit obligation is based on market rates for long-term high quality bonds. BWBC uses an August 31 measurement date.

The net cost consists of the actuarially determined benefits for the current year's service, imputed interest on projected obligations and the amortization of actuarial gains or losses over the expected average remaining service life. Actuarial gains or losses are amortized over the employees' average remaining service life only if the net actuarial gain or loss at the beginning of the year is in excess of 10% of the accrued benefit obligation at that date. These benefits are not pre-funded, resulting in a deficit equal to the accrued liability benefit obligation.

BWBC also provides defined contribution pension benefits to its employees. BWBC's contributions reflect the full benefit cost of the employer and they are charged to operations during the year in which the services are rendered.

#### **l) Leases**

As lessee, leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

As lessor, when assets are leased out under an operating lease, the asset is included in the Balance Sheet within property, plant and equipment. Leased assets include all of the investment property, buildings and residential.

#### **m) Federal, Provincial and Municipal Government Assistance**

Federal, provincial and municipal government assistance is recorded as a reduction of the cost of the asset acquired when there is a reasonable assurance that the requirements for the approved grants are met.

**Blue Water Bridge Canada**  
**Financial Statements – For the three months ended November 30, 2011**

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## **4.5 Selected Notes to the Interim Unaudited Condensed Financial Statements**

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### **2. Summary of Significant Accounting Policies continued...**

#### **n) Related Party Transactions**

Related party transactions are recorded in accordance with the applicable IFRS related to the transaction.

#### **o) Measurement Uncertainty**

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. Actual results could differ significantly from management's best estimates as additional information becomes available in the future.

#### **p) Critical Accounting Estimates and Judgments**

The following are estimates and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- i. Useful life expectancy predictions for investment property, intangible assets and property, plant and equipment.
- ii. Estimates used in determining post-retirement defined benefit obligations. Additional information relating to employee-related liabilities is disclosed in note 13 of the 2011 Audited Financial Statements.
- iii. Classification of investments as held-to-maturity.

### **3. Government Funding**

The federal government, a related party, announced funding for BWBC through the Economic Action Plan initiative. BWBC receives funding for infrastructure projects from the federal government which will reimburse BWBC 50% of the costs for the infrastructure projects up to \$10 million (for total spending of \$20 million). As at November 30, 2011 \$18,365,131 of eligible expenditures has been incurred by BWBC on infrastructure projects; federal funds received since the implementation of the Economic Action Plan initiative in the amount of \$7,845,894 (for \$15,691,788 expended). Finally, an amount of \$1,336,672 is included in accounts receivable for infrastructure claims to receive from the federal government at November 30, 2011.

Comparatively, at August 31<sup>st</sup>, 2011, \$18,336,312 of eligible expenditures was incurred by BWBC on infrastructure projects; federal funds received since the implementation of the Economic Action Plan initiative in the amount of \$7,502,509 (for \$15,005,018 expended). Finally, an amount of \$1,665,649 was included in accounts receivable for claims to be submitted for work completed up to August 31, 2011.

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**Financial Statements – For the three months ended November 30, 2011**

## **4.5 Selected Notes to the Interim Unaudited Condensed Financial Statements**

### **4. Transition to International Financial Reporting Standards**

#### **Balance Sheet IFRS Reconciliation**

(Unaudited)	CGAAP August 31, 2011	IFRS Adjustments	IFRS August 31, 2011
<b>As at August 31, 2011</b>			
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents	\$ 7,987,690	\$ -	\$ 7,987,690
Held-to-maturity financial assets	1,069,906	-	1,069,906
Accounts receivable	2,247,859	-	2,247,859
Prepaid expenses	373,439	-	373,439
	<u>11,678,894</u>	<u>-</u>	<u>11,678,894</u>
<b>Held-to-maturity financial assets</b>	1,117,387	-	1,117,387
<b>Property, plant and equipment</b>	181,480,466	38,618,262	220,098,728
<b>Intangible assets</b>	269,578	-	269,578
<b>Investment property</b>	-	16,235,847	16,235,847
<b>Restricted assets</b>			
Debt service reserve fund	3,405,935	-	3,405,935
Operating and maintenance contingency fund	2,222,877	-	2,222,877
	<u>5,628,812</u>	<u>-</u>	<u>5,628,812</u>
	<u>\$ 200,175,137</u>	<u>\$ 54,854,109</u>	<u>\$ 255,029,246</u>
<b>Liabilities</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	\$ 2,850,345	\$ 9,249	\$ 2,859,594
Holdbacks payable	992,116	-	992,116
Deferred revenue	1,642,495	-	1,642,495
Current portion of bank loan payable	375,391	-	375,391
Current portion of bonds payable	3,289,999	(63,698)	3,226,301
	<u>9,150,346</u>	<u>(54,449)</u>	<u>9,095,897</u>
<b>Employee future benefits liability</b>	4,751,588	584,782	5,336,370
<b>Long-term debt</b>			
Bank loan payable	14,594,766	-	14,594,766
Bonds payable	84,823,406	(689,609)	84,133,797
	<u>99,418,172</u>	<u>(689,609)</u>	<u>98,728,563</u>
	<u>113,320,106</u>	<u>(159,276)</u>	<u>113,160,830</u>
<b>Equity</b>			
Retained earnings	<u>86,855,031</u>	<u>55,013,385</u>	<u>141,868,416</u>
	<u>\$ 200,175,137</u>	<u>\$ 54,854,109</u>	<u>\$ 255,029,246</u>

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**Financial Statements – For the three months ended November 30, 2011**

#### **4.5 Selected Notes to the Interim Unaudited Condensed Financial Statements**

##### **4. Transition to International Financial Reporting Standards continued...**

##### **Statement of Operations, Comprehensive Income and Equity IFRS Reconciliation**

(Unaudited) For the period ended November 30, 2011	CGAAP August 31, 2011	IFRS Adjustments	IFRS August 31, 2011
<b>Revenues</b>			
Tolls and services			
Facility rentals	\$ 16,313,008	\$ -	\$ 16,313,008
Currency exchange department	2,455,481	-	2,455,481
Interest and Sundry	1,205,663	-	1,205,663
	<u>419,115</u>	<u>-</u>	<u>419,115</u>
	<u>20,393,267</u>	<u>-</u>	<u>20,393,267</u>
<b>Expenses</b>			
Interest on long-term debt	5,838,159	(524,795)	5,313,364
Amortization of property, plant and equipment	5,263,903	748,128	6,012,031
Amortization of investment property	-	662,189	662,189
Human resources	5,210,696	-	5,210,696
General and administrative	2,200,267	-	2,200,267
Maintenance and other expenses	1,623,024	-	1,623,024
Amortization of intangible assets	<u>153,063</u>	<u>-</u>	<u>153,063</u>
	<u>20,289,112</u>	<u>885,522</u>	<u>21,174,634</u>
<b>Excess of revenues over expenses and comprehensive income</b>	<b>\$ 104,155</b>	<b>\$ (885,522)</b>	<b>\$ (781,367)</b>
 <b>Retained Earnings, beginning of year</b>			
Retained Earnings, beginning of year	\$ 86,750,876	\$ 55,898,907	\$ 142,649,783
<b>Excess of revenues over expenses and comprehensive income</b>	<b><u>104,155</u></b>	<b><u>(885,522)</u></b>	<b><u>(781,367)</u></b>
<b>Retained Earnings, end of year</b>	<b>\$ 86,855,031</b>	<b>\$ 55,013,385</b>	<b>\$ 141,868,416</b>

#### **5. Comparative Figures**

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

#### **6. Subsequent Events**

There were no material subsequent events that have not been reflected at the date of issue of this quarterly financial report.